

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

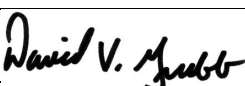
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Center Line, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Center Line, Michigan

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Independent Auditor's Report

To the City Council
City of Center Line, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Center Line, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Center Line, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedule, and retirement system schedules of funding progress and employer contributions identified in the table of contents are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Center Line, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Center Line, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

January 16, 2008

City of Center Line, Michigan

Management's Discussion and Analysis

The City of Center Line, Michigan's management's discussion and analysis (MD&A) is designed to provide an objective and easy-to-read analysis of the City's financial activities based on current information and facts. The MD&A is intended to serve as an introduction to the City's basic financial statements. Specifically, this information is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues.

This is the fourth year the City has presented its financial statements in accordance with the reporting model required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). This reporting model significantly changes not only the presentation of financial data, but also the manner in which the information is recorded.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets, the difference between the City's assets and liabilities, are one way to measure the City's financial health. Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the City are divided into three categories:

- **Government Activities** - Most of the City's basic services are included here such as public safety, public works, recreation and library, and general administration.
- **Business-type Activities** - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system and its solid waste system are included here.
- **Component Units** - The City includes one other entity in its report, the Downtown Development Authority (DDA). Although legally separate, this "component unit" is important because the City is financially accountable for it.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- **Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- **Proprietary Funds** - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, offer short- and long-term financial information. In fact, the City's Enterprise Funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- **Fiduciary Funds** - Fiduciary funds provide information about resources held for the benefit of parties outside the government, such as the retirement plan for the City's public safety employees in which the City acts solely as a trustee or agent. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$26,000 from the prior year.
- Total net assets related to the City's governmental activities are \$4,989,182, with \$2,540,370 of that amount invested in capital assets, net of related debt.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$702,584, or 8.3 percent of total General Fund expenditures and transfers out.

Financial Analysis of the City as a Whole

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Center Line, assets of the governmental activities exceeded liabilities by \$4,989,182 at the close of the fiscal year ended June 30, 2007. The largest portion of the City's net assets (50.9 percent) reflects its investment in capital assets. The City uses capital assets to provide services to citizens; accordingly, these assets are not available for future spending.

Restricted net assets of the City's governmental activities totaled \$1,290,866 at June 30, 2007. These net assets have limits on their use that are externally imposed by restrictions such as enabling legislation or bond covenants. These resources can only be used for the specific purposes for which they were intended, such as expenditures for major and local streets, or debt service activities. The remaining unrestricted net assets may be used to meet the City's ongoing operations.

The designated fund balance in the General Fund at June 30, 2007 totals \$702,584 and is 12.6 percent greater than the 2006 amount of \$624,208. This difference is due to an increase in fund balance for the year primarily resulting from the increase in taxable value in the residential class of real property. The net assets invested in capital assets for the governmental activities as a percentage of total net assets for 2007 (50.9 percent) is less than the same amount in 2006. The City's restricted net assets for the governmental activities have increased slightly from \$1,090,668 in 2006 to \$1,290,866 this year.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets of the City as of June 30, 2007 and 2006:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 3,270,634	\$ 2,869,098	\$ 1,033,255	\$ 1,904,013	\$ 4,303,889	\$ 4,773,111
Noncurrent assets:						
Restricted assets	-	-	277,336	224,623	277,336	224,623
Capital assets	4,550,207	4,675,179	12,582,785	12,617,491	17,132,992	17,292,670
Total assets	7,820,841	7,544,277	13,893,376	14,746,127	21,714,217	22,290,404
Liabilities						
Current liabilities	964,237	842,078	678,292	449,385	1,642,529	1,291,463
Long-term liabilities	1,867,422	1,972,008	9,006,954	9,462,507	10,874,376	11,434,515
Total liabilities	2,831,659	2,814,086	9,685,246	9,911,892	12,516,905	12,725,978
Net Assets						
Invested in capital assets - Net of related debt	2,540,370	2,599,806	3,575,831	3,154,984	6,116,201	5,754,790
Restricted	1,290,866	1,090,668	277,336	224,623	1,568,202	1,315,291
Unrestricted	1,157,946	1,039,717	354,963	1,454,628	1,512,909	2,494,345
Total net assets	<u>\$ 4,989,182</u>	<u>\$ 4,730,191</u>	<u>\$ 4,208,130</u>	<u>\$ 4,834,235</u>	<u>\$ 9,197,312</u>	<u>\$ 9,564,426</u>

As shown in Table 2 (changes in net assets), the City's total revenues were approximately \$11,100,000 for the current year, of which approximately 55 percent was obtained from property taxes. Fees charged for services accounted for another 26 percent of the total, with the balance of the City's revenues primarily being derived from state and federal sources. The total cost of all programs and services at June 30, 2007 was approximately \$11,500,000. City expenses cover a wide range of services. For the current fiscal year, about 46 percent of the City's expenses are related to public safety and public works.

Net assets increased by \$258,991 for the City of Center Line's governmental activities while net assets for business-type activities decreased by \$626,105 during the year. The majority of this decrease for business-type activities is attributable to rates charged to customers not covering the cost of operations.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The following analysis highlights the changes in net assets for the years ended June 30, 2007 and 2006:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 813,257	\$ 926,122	\$ 2,111,096	\$ 2,163,787	\$ 2,924,353	\$ 3,089,909
Operating grants and contributions	603,819	656,005	-	-	603,819	656,005
Capital grants and contributions	88,513	86,988	-	-	88,513	86,988
General revenues:						
Property taxes	6,159,702	5,682,436	-	-	6,159,702	5,682,436
State-shared revenues	1,001,323	1,027,807	-	-	1,001,323	1,027,807
Cable franchise fees	88,508	76,108	-	-	88,508	76,108
Investment earnings	128,892	129,631	64,250	87,872	193,142	217,503
Miscellaneous	45,120	94,208	-	-	45,120	94,208
Loss from joint venture	(3,056)	(19,161)	-	-	(3,056)	(19,161)
Transfers	(849,065)	(915,550)	849,065	915,550	-	-
Loss on sale of assets	-	(19,959)	-	-	-	(19,959)
Total revenue	8,077,013	7,724,635	3,024,411	3,167,209	11,101,424	10,891,844
Program Expenses						
General government	1,785,361	1,737,426	-	-	1,785,361	1,737,426
Public safety	3,821,420	3,740,349	-	-	3,821,420	3,740,349
Public works	1,463,503	1,387,622	-	-	1,463,503	1,387,622
Recreation and culture	677,994	662,496	-	-	677,994	662,496
Interest on long-term debt	69,744	72,655	-	-	69,744	72,655
Water and sewer	-	-	3,377,769	3,055,652	3,377,769	3,055,652
Solid waste disposal	-	-	272,747	274,606	272,747	274,606
Total program expenses	7,818,022	7,600,548	3,650,516	3,330,258	11,468,538	10,930,806
Change in Net Assets	\$ 258,991	\$ 124,087	\$ (626,105)	\$ (163,049)	\$ (367,114)	\$ (38,962)

Financial Analysis of the City's Funds

The fund financial statements provide detailed information on the most significant governmental funds - not the City as a whole. The City of Center Line, Michigan uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements as well as to show accountability for certain activities. The City's major governmental funds for fiscal year 2006-2007 include the General Fund and the Water and Sewer Fund.

The General Fund is the main operating fund of the City and accounts for most of the City's governmental services, the most significant of which includes public safety. Expenditures for public safety services incurred during the year totaled approximately \$3.8 million. The General Fund is primarily supported by property taxes (70 percent) and intergovernmental revenues (13 percent), which consist primarily of state-shared revenues. A measure of the General Fund's liquidity can be made by comparing unreserved fund balance and total fund balance to total fund expenditures. At year end, unreserved fund balance and total fund balance were 8.3 percent and 18.4 percent, respectively, of total General Fund expenditures including transfers out.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

For the 2005 and 2006 tax years (the City's 2006 and 2007 fiscal years), errors were made in calculating the debt levy resulting in tax collections exceeding debt service requirements by approximately \$236,000 and \$350,000 respectively. These amounts are legally restricted for the retirement of unlimited tax general obligation bonds and have been reported as reserved fund balance in the General Fund.

Proprietary Funds - In addition to governmental funds, the City uses proprietary funds, which provide similar types of information as that contained in the government-wide financial statements, but in more detail. The Water and Sewer Fund and Solid Waste Disposal Fund make up the City's proprietary funds. Unrestricted net assets of the proprietary funds were approximately \$355,000 at year end, while the portion attributable to the Water and Sewer Fund is a deficit of \$17,580.

For fiscal year 2006-2007, a combined water/sewer rate increase of approximately 5 percent was approved for the Water and Sewer Fund, resulting in the increase in charges for services. The rate increases were necessary due to increased charges imposed by the Detroit water and sewerage department and increased City operating costs for water/sewer maintenance.

The decrease in working capital of the Water and Sewer Fund from approximately \$500,000 to (\$650,000) is primarily due to rates charged to customers not being set to recover costs paid for operations, a significant refund paid to a customer, and required repairs and maintenance.

The Solid Waste Disposal Fund experienced a reduction in the user fee. This was directly attributed to a new contract with Allied Waste and a new contract into which the member communities entered for the South Macomb Disposal Authority transfer station.

General Fund Budgetary Highlights

The City amended its budget to account for events and changes that occurred during the course of the year. Increases to General Fund revenue were made as a result of increases in property tax revenue.

Differences in expenditures between the original budget and the amended budget were comprised of the following:

- Increase in appropriations to prevent budget overruns
- Health insurance increased costs
- Increase in costs of other benefits
- Salary adjustments relative to union contract negotiations

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets

At June 30, 2007, the City had \$17,132,992 invested in a wide range of capital assets, including land, buildings, police and fire equipment, and the water and sewer utility system.

Significant capital asset activity during the year included the purchase of the aerial bucket truck in the governmental activities totaling \$126,694, and the addition of a bobcat excavator in the business-type activities totaling \$51,646, which were funded through installment purchase agreements.

Long-term Debt

The City's total indebtedness as of June 30, 2007 is approximately \$11.0 million, excluding compensated absences. Of this amount, approximately \$10.0 million is for general obligation bonds. In addition, the City has installment purchase agreements for the 2005 sewer vector in the amount of \$81,466, the 2005 street sweeper for \$45,131, the 2006 back hoe and wheel loader in the amount of \$107,186, the 2006 aerial bucket truck in the amount of \$126,694, the 2006 bobcat excavator in the amount of \$51,646, revenue bonds in the amount of \$115,000, and special assessment bonds in the amount of \$425,000 for the Kramer Homes Sewer Improvement project.

The City of Center Line, Michigan maintains an "A3" rating from Moody's Investors Services on its unlimited tax debt and a "BBB+" rating from Standard & Poor's.

Economic Factors and Next Year's Budgets and Rates

The development of the 2007-2008 budget was impacted by several factors. On the revenue side, the slow rebounding state economy is anticipated to save us from additional state revenue-sharing cuts, while investment income is also expected to remain constant. Taxable value is expected to remain constant due to the downturn in the real estate market.

On the expenditures side, costs were expected to continue to escalate for health care and pension costs.

Next year's General Fund budget is expected to use \$591,000 of unreserved fund balance in order to meet its needs. Total fund balance in the General Fund at the end of the next fiscal year is expected to drop below 10 percent of budgeted expenditures, which is the minimum established funding level goal set by the City Council, as more will be needed to balance the budget once agreements are reached with the four union contracts that expired June 30, 2006. The City has also attempted to control the escalation of expenses by postponing or eliminating certain nonessential capital outlay requests and by freezing the filling of vacant positions.

City of Center Line, Michigan

Management's Discussion and Analysis (Continued)

The 2007-2008 tax rate for operating purposes remains the same as the previous year (14.663 mills). The debt millage rate has been decreased by 1.1747 mills to 3.9977 mills due to the 2004 bond refinancing, while the police and fire pension millage has been increased 0.5312 mills to 3.9616 due to increases in benefits for public safety employees as a result of the union negotiating process. Overall, next year's tax rate decrease is .6435 mills, from 23.2658 mills to 22.6223 mills.

Request for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the treasurer/finance director at the City of Center Line, 7070 E. Ten Mile Rd., Center Line, MI 48015.

City of Center Line, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,111,262	\$ 308,368	\$ 2,419,630	\$ 537,795
Receivables - Net:				
Property taxes	78,276	-	78,276	-
Customers	-	715,482	715,482	-
Rehabilitation loans	39,377	-	39,377	-
Special assessments	437,725	-	437,725	-
Interest and other	43,200	9,405	52,605	-
State of Michigan	218,486	-	218,486	-
Investment in joint venture (Note 12)	65,233	-	65,233	-
Prepaid expenses	277,075	-	277,075	-
Restricted assets (Notes 8)	-	277,336	277,336	-
Capital assets - Net (Note 4):				
Assets not depreciated	1,445,365	-	1,445,365	-
Assets being depreciated	3,104,842	12,582,785	15,687,627	-
Total assets	7,820,841	13,893,376	21,714,217	537,795
Liabilities				
Accounts payable	335,220	456,678	791,898	-
Accrued and other liabilities	100,785	221,614	322,399	-
Property taxes collected in advance and refundable deposits	210,981	-	210,981	-
Deferred revenue (Note 6)	78,276	-	78,276	-
Noncurrent liabilities (Note 7):				
Due within one year	238,975	631,787	870,762	-
Due in more than one year	1,867,422	8,375,167	10,242,589	-
Total liabilities	2,831,659	9,685,246	12,516,905	-
Net Assets				
Invested in capital assets - Net of related debt	2,540,370	3,575,831	6,116,201	-
Restricted:				
Streets	221,708	-	221,708	-
Capital projects	44,913	-	44,913	-
Special assessment debt service	437,725	-	437,725	-
General obligation debt service	586,520	-	586,520	-
Revenue bond ordinances	-	277,336	277,336	-
Unrestricted	1,157,946	354,963	1,512,909	537,795
Total net assets	\$ 4,989,182	\$ 4,208,130	\$ 9,197,312	\$ 537,795

City of Center Line, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 1,785,361	\$ 629,545	\$ 94,439	\$ -
Public safety	3,821,420	131,168	46,957	-
Public works	1,463,503	5,865	444,487	88,513
Recreation and culture	677,994	46,679	17,936	-
Interest on long-term debt	69,744	-	-	-
Total governmental activities	7,818,022	813,257	603,819	88,513
Business-type activities:				
Water and sewer	3,377,769	1,882,613	-	-
Solid waste disposal	272,747	228,483	-	-
Total business-type activities	3,650,516	2,111,096	-	-
Total primary government	<u>\$ 11,468,538</u>	<u>\$ 2,924,353</u>	<u>\$ 603,819</u>	<u>\$ 88,513</u>
Component unit - Downtown Development Authority	<u>\$ 800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Cable franchise fees				
Investment earnings				
Miscellaneous				
Loss from joint venture				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit - Downtown Development Authority
Governmental Activities	Business-type Activities	Total	
\$ (1,061,377)	\$ -	\$ (1,061,377)	\$ -
(3,643,295)	-	(3,643,295)	-
(924,638)	-	(924,638)	-
(613,379)	-	(613,379)	-
(69,744)	-	(69,744)	-
(6,312,433)	-	(6,312,433)	-
-	(1,495,156)	(1,495,156)	-
-	(44,264)	(44,264)	-
-	(1,539,420)	(1,539,420)	-
(6,312,433)	(1,539,420)	(7,851,853)	-
-	-	-	(800)
6,159,702	-	6,159,702	38,702
1,001,323	-	1,001,323	-
88,508	-	88,508	-
128,892	64,250	193,142	24,915
45,120	-	45,120	-
(3,056)	-	(3,056)	-
(849,065)	849,065	-	-
6,571,424	913,315	7,484,739	63,617
258,991	(626,105)	(367,114)	62,817
4,730,191	4,834,235	9,564,426	474,978
\$ 4,989,182	\$ 4,208,130	\$ 9,197,312	\$ 537,795

City of Center Line, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents (Note 3)	\$ 1,631,343	\$ 479,919	\$ 2,111,262
Receivables - Net:			
Property taxes	78,276	-	78,276
Rehabilitation loans	-	39,378	39,378
Special assessments	437,725	-	437,725
Interest and other	43,198	-	43,198
State of Michigan	182,555	35,931	218,486
Prepaid expenses	277,075	-	277,075
Total assets	<u>\$ 2,650,172</u>	<u>\$ 555,228</u>	<u>\$ 3,205,400</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 279,072	\$ 64,269	\$ 343,341
Accrued and other liabilities	81,882	-	81,882
Property taxes collected in advance and refundable deposits	210,981	-	210,981
Deferred revenue (Note 6)	512,058	39,377	551,435
Total liabilities	1,083,993	103,646	1,187,639
Fund Balances			
Reserved for prepaid expenses	277,075	-	277,075
Reserved for general obligation debt service (Note 13)	586,520	-	586,520
Unreserved - Designated (Note 13)	702,584	-	702,584
Unreserved, reported in:			
Special Revenue Funds	-	406,669	406,669
Capital Projects Funds	-	44,913	44,913
Total fund balances	1,566,179	451,582	2,017,761
Total liabilities and fund balances	<u>\$ 2,650,172</u>	<u>\$ 555,228</u>	<u>\$ 3,205,400</u>

City of Center Line, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2007

Total Fund Balances of Governmental Funds	\$ 2,017,761
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	4,550,207
Investment in joint venture is not included as an asset in the governmental funds	65,233
Receivables are expected to be collected over several years and are not available to pay for current year expenditures:	
Rehabilitation loans	39,377
Special assessments	433,782
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Notes and bonds payable	(2,009,837)
Compensated absences	(96,560)
Accrued interest payable is not included as a liability in the governmental funds	<u>(10,781)</u>
Net Assets of Governmental Activities	<u>\$ 4,989,182</u>

City of Center Line, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Fund - General Fund	Other Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 6,254,261	\$ -	\$ 6,254,261
Intergovernmental revenue:			
Federal sources	141,396	-	141,396
State sources	997,214	444,487	1,441,701
Special assessments	88,513	-	88,513
Fees and charges	591,050	-	591,050
Licenses and permits	229,564	-	229,564
Interest income	117,012	11,880	128,892
Other	419,240	5,154	424,394
Total revenue	8,838,250	461,521	9,299,771
Expenditures			
General government:			
Legislative	18,113	-	18,113
District Court	446,604	-	446,604
City assessor	268,229	-	268,229
City manager - Clerk	552,321	-	552,321
City treasurer	263,578	-	263,578
Other general government	438,324	-	438,324
Administration	-	44,448	44,448
Public safety:			
Public safety department	3,573,918	-	3,573,918
Protective inspection	137,261	-	137,261
Public works - DPW and street maintenance	1,054,002	466,534	1,520,536
Recreation and culture:			
Recreation	378,581	-	378,581
Library	269,481	-	269,481
Debt service	261,974	-	261,974
Construction and capital outlay	-	295	295
Total expenditures	7,662,386	511,277	8,173,663
Excess of Revenue Over (Under) Expenditures	1,175,864	(49,756)	1,126,108
Other Financing Sources (Uses)			
Proceeds from installment note	126,694	-	126,694
Transfers in	-	82,000	82,000
Transfers out	(849,065)	(82,000)	(931,065)
Total other financing uses	(722,371)	-	(722,371)
Net Changes in Fund Balances	453,493	(49,756)	403,737
Fund Balances - Beginning of year	1,112,686	501,338	1,614,024
Fund Balances - End of year	<u>\$ 1,566,179</u>	<u>\$ 451,582</u>	<u>\$ 2,017,761</u>

City of Center Line, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances of Governmental Funds **\$ 403,737**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	\$ 199,257	
Depreciation expense	<u>(324,229)</u>	(124,972)

For special assessments and other long-term receivables, revenues are recorded in the statement of activities when the assessment is set; these amounts are not reported in the funds until collected or collectible within 60 days of year end (94,559)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 192,230

Proceeds from installment debt is reported as an other financing source in the governmental funds but not in the statement of activities (126,694)

Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities 12,305

Loss from a joint venture reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds (3,056)

Change in Net Assets of Governmental Activities **\$ 258,991**

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Net Assets June 30, 2007

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Assets			
Current assets:			
Cash and investments (Note 3)	\$ -	\$ 308,368	\$ 308,368
Receivables:			
Customers	633,803	81,679	715,482
Interest and other	9,405	-	9,405
Total current assets	643,208	390,047	1,033,255
Long-term assets:			
Restricted assets (Note 8)	277,336	-	277,336
Capital assets being depreciated - Net (Note 4)	12,582,785	-	12,582,785
Total long-term assets	12,860,121	-	12,860,121
Total assets	13,503,329	390,047	13,893,376
Liabilities			
Current liabilities:			
Accounts payable	439,174	17,504	456,678
Accrued liabilities	221,614	-	221,614
Current portion of long-term debt (Note 7)	631,787	-	631,787
Total current liabilities	1,292,575	17,504	1,310,079
Long-term liabilities - Long-term debt - Net of current portion (Note 7)	8,375,167	-	8,375,167
Total liabilities	9,667,742	17,504	9,685,246
Net Assets			
Invested in capital assets - Net of related debt	3,575,831	-	3,575,831
Restricted - Revenue bond ordinances	277,336	-	277,336
Unrestricted	(17,580)	372,543	354,963
Total net assets	<u>\$ 3,835,587</u>	<u>\$ 372,543</u>	<u>\$ 4,208,130</u>

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Operating Revenue			
Water sales and sewage disposal revenue	\$ 1,882,613	\$ -	\$ 1,882,613
Solid waste disposal revenue	-	228,483	228,483
Total operating revenue	1,882,613	228,483	2,111,096
Operating Expenses			
Cost of water and sewage disposal	1,239,214	-	1,239,214
Cost of solid waste disposal	-	265,975	265,975
Salaries and fringe benefits	393,453	-	393,453
Utilities	28,318	-	28,318
Depreciation	283,713	-	283,713
Repairs and maintenance	616,518	-	616,518
Insurance	3,061	-	3,061
Office supplies	3,091	1,897	4,988
Professional services	37,312	1,875	39,187
Operating supplies	33,269	-	33,269
Rent	31,393	3,000	34,393
Vehicle expenses	11,676	-	11,676
Other	294,157	-	294,157
Total operating expenses	2,975,175	272,747	3,247,922
Operating Loss	(1,092,562)	(44,264)	(1,136,826)
Nonoperating Revenue (Expenses)			
Interest income	48,590	15,660	64,250
Interest expense	(402,594)	-	(402,594)
Total nonoperating revenue (expenses)	(354,004)	15,660	(338,344)
Loss - Before transfers	(1,446,566)	(28,604)	(1,475,170)
Transfer In	849,065	-	849,065
Decrease in Net Assets	(597,501)	(28,604)	(626,105)
Net Assets - Beginning of year	4,433,088	401,147	4,834,235
Net Assets - End of year	<u>\$ 3,835,587</u>	<u>\$ 372,543</u>	<u>\$ 4,208,130</u>

City of Center Line, Michigan

Proprietary Funds Enterprise Funds Statement of Cash Flows Year Ended June 30, 2007

	Major Fund - Water and Sewer	Nonmajor Fund - Solid Waste Disposal	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,824,353	\$ 235,274	\$ 2,059,627
Payments to suppliers for water supply, sewage disposal, and solid waste disposal	(1,624,360)	(269,627)	(1,893,987)
Payments to other suppliers and employees	(834,543)	(6,772)	(841,315)
Net cash used in operating activities	(634,550)	(41,125)	(675,675)
Cash Flows from Capital and Related Financing Activities			
Transfers from other funds	849,065	-	849,065
Purchase of capital assets	(249,007)	-	(249,007)
Proceeds from debt issuance	51,646	-	51,646
Principal and interest paid on long-term debt	(909,793)	-	(909,793)
Net cash used in capital and related financing activities	(258,089)	-	(258,089)
Cash Flows from Investing Activities - Interest received on investments	48,590	15,660	64,250
Net Decrease in Cash and Cash Equivalents	(844,049)	(25,465)	(869,514)
Cash and Cash Equivalents - Beginning of year	1,121,385	333,833	1,455,218
Cash and Cash Equivalents - End of year	<u>\$ 277,336</u>	<u>\$ 308,368</u>	<u>\$ 585,704</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ -	\$ 308,368	\$ 308,368
Restricted assets	277,336	-	277,336
Total	<u>\$ 277,336</u>	<u>\$ 308,368</u>	<u>\$ 585,704</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (1,092,562)	\$ (44,264)	\$ (1,136,826)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	283,713	-	283,713
Changes in assets and liabilities:			
Receivables	(58,260)	6,791	(51,469)
Accounts payable and accrued liabilities	232,559	(3,652)	228,907
Net cash used in operating activities	<u>\$ (634,550)</u>	<u>\$ (41,125)</u>	<u>\$ (675,675)</u>

There were no significant noncash transactions during the year ended June 30, 2007.

City of Center Line, Michigan

Fiduciary Funds Statement of Net Assets Pension and Other Employee Benefit Trust Funds June 30, 2007

Assets

Cash (Note 3)	\$ 529,530
Investments (Note 3):	
Common and preferred stocks	9,528,677
Corporate bonds and notes	682,255
U.S. Treasury securities	561,917
Federal agency securities	1,919,749
Interlocal agreement investment pools	50,612
Accrued interest receivable	<u>26,482</u>
Total assets	<u>13,299,222</u>

Net Assets

Held in trust for pension benefits	13,248,610
Held in trust for retiree healthcare benefits	<u>50,612</u>
Total net assets	<u><u>\$ 13,299,222</u></u>

City of Center Line, Michigan

Fiduciary Funds Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2007

Additions

Investment income:	
Interest and dividends	\$ 295,363
Net appreciation in fair value of investments	1,652,596
Less investment expenses	<u>(117,513)</u>
Net investment income	1,830,446
Contributions:	
Employer	351,503
Employees	<u>131,619</u>
Total contributions	<u>483,122</u>
Total additions	2,313,568

Deductions

Benefit payments	974,702
Administrative expenses	<u>1,896</u>
Total deductions	<u>976,598</u>

Net Increase	1,336,970
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Net Assets Held in Trust for Pension and Other Employee Benefits

Beginning of year	<u>11,962,252</u>
End of year	<u><u>\$ 13,299,222</u></u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Center Line, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected five-member council. The accompanying financial statements present the City and its discretely presented component unit, an entity for which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City, although the City has the ability to impose its will over the entities.

Discretely Presented Component Unit - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, consisting of 11 individuals, is selected by the City Council. In addition, the Downtown Development Authority's budget is subject to approval by the City Council. The DDA does not issue separate financial statements.

The City has an Economic Development Corporation and a Building Authority; however, there was no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or identifiable activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The major governmental funds and major Enterprise Fund are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the accumulation of resources for the payment of pension and retiree healthcare benefits to employees of the City.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Customer, tax, and other receivables are stated at invoice amounts, net of allowance for doubtful accounts. An allowance for doubtful customer receivable accounts is established based on historical loss experience and management's estimate. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Prepaid Expenses - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Property Tax Revenue - Properties are assessed as of December 31 and the related taxes become a lien at that time. These taxes are billed on July 1 of the following year and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2006 taxable valuation (real and personal property) of the City totaled approximately \$251,100,000, on which ad valorem taxes levied consisted of 14.663 mills for the City's operating purposes, 5.1723 mills for debt service purposes, and 3.4303 mills for the public safety retirement benefits. The ad valorem taxes generated approximately \$3,682,000 for general operations, \$1,299,000 for debt retirement, and \$861,000 for public safety pension benefits. These amounts are recorded in the General Fund as property tax revenue. Property tax revenue in the General Fund also includes industrial facilities taxes and similar types of receipts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, utility systems, etc.) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Utility system	70 years
Land improvements	20 years
Buildings and improvements	50 years
Machinery and equipment	5 to 20 years

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only when due for payment (generally for employee terminations as of year end).

Long-term Obligations - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. The deferred amount from debt refundings is amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable deferred amount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City administration and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end, and encumbrances are not included as expenditures. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered spent when goods are received or services are rendered. During the year, the budget was amended in a legally permissible manner.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

The city manager presents the preliminary budget to the Council in April and the final budget is legally adopted in June to commence on the first day of July.

Excess of Expenditures Over Appropriations in Budgeted Funds - Transfers out from the General Fund exceeded appropriations by approximately \$849,000 during the year. This excess was offset by a positive variance in debt service expenditures and was the result of a difference in how debt service expenditures related to the General Obligation Water and Sewer Bonds were accounted for. The bond payments are funded through a property tax levy accounted for in the General Fund. The budget as adopted anticipated that the debt service expenditures would be reported in the General Fund; however, the tax monies were instead transferred to the Water and Sewer Fund where the debt service payments were accounted for.

Fund Deficits - The Water and Sewer Enterprise Fund has a deficit in its unrestricted net assets as of June 30, 2007. The City intends to eliminate the deficit through increases in operating charges to customers and reduction of expenses.

State Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity for the year ended June 30, 2007 is as follows:

Cumulative shortfall - July 1, 2006		\$ (484,278)
Building permit revenue		86,531
Related expenditures:		
Direct costs	\$ 137,261	
Estimated indirect costs	<u>13,726</u>	
Total construction code expenditures		<u>150,987</u>
Excess of expenditures over revenue		<u>(64,456)</u>
Cumulative shortfall - June 30, 2007		<u><u>\$ (548,734)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law and management believes that the City's deposits and investments are in accordance with statutory authority.

The Police and Fire Retirement System Fund, Police and Fire Retiree Health Care Fund, and General Retiree Health Care Fund are also authorized by Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, certain real estate investments, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the board has authorized investments in accordance with Public Act 196 of 1997. The City's deposits are in accordance with statutory requirements.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$648,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Police and Fire Retirement System:		
U.S. Treasury securities	\$ 561,917	11.82 years
Federal agency securities	1,919,749	14.66 years
Corporate bonds	682,255	7.54 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 67,761	AAA	S&P
Bank investment pool	407,832	AAA-VI	Fitch
Bank investment pool	2,287,202	Not Rated	N/A
Bank investment pool (Pension Fund)	50,613	AAA-VI	Fitch
Federal agency securities	1,919,749	AAA	S&P
Corporate bonds	682,255	A-AAA	S&P

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,445,365	\$ -	\$ -	\$ 1,445,365
Capital assets being depreciated:				
Land improvements	654,546	-	-	654,546
Buildings and improvements	2,335,854	-	-	2,335,854
Machinery and equipment	4,242,441	199,257	-	4,441,698
Subtotal	7,232,841	199,257	-	7,432,098
Accumulated depreciation:				
Land improvements	375,063	23,102	-	398,165
Buildings and improvements	854,653	46,697	-	901,350
Machinery and equipment	2,773,311	254,430	-	3,027,741
Subtotal	4,003,027	324,229	-	4,327,256
Net capital assets being depreciated	3,229,814	(124,972)	-	3,104,842
Net capital assets	<u>\$ 4,675,179</u>	<u>\$ (124,972)</u>	<u>\$ -</u>	<u>\$ 4,550,207</u>
Business-type Activities				
Capital assets being depreciated:				
Utility system	\$ 14,309,128	\$ -	\$ -	\$ 14,309,128
Buildings and improvements	1,502,990	-	-	1,502,990
Machinery and equipment	662,893	249,007	-	911,900
Subtotal	16,475,011	249,007	-	16,724,018
Accumulated depreciation:				
Utility system	2,739,906	204,113	-	2,944,019
Buildings and improvements	636,359	25,567	-	661,926
Machinery and equipment	481,255	54,033	-	535,288
Subtotal	3,857,520	283,713	-	4,141,233
Net capital assets	<u>\$ 12,617,491</u>	<u>\$ (34,706)</u>	<u>\$ -</u>	<u>\$ 12,582,785</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the governmental activities as follows:

General government	\$ 50,669
Public safety	121,268
Public works	96,464
Recreation and culture	<u>55,828</u>
Total governmental activities	<u>\$ 324,229</u>

Note 5 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
Transfers in:			
Water and Sewer Fund	\$ 849,065 (1)	\$ -	\$ 849,065
Other governmental funds	<u>-</u>	<u>82,000 (2)</u>	<u>82,000</u>
Total	<u>\$ 849,065</u>	<u>\$ 82,000</u>	<u>\$ 931,065</u>

(1) Transfer of debt service tax revenues collected in the General Fund for retirement of Unlimited Tax General Obligation Water and Sewer Improvement Bonds reported in the Water and Sewer Enterprise Fund

(2) Transfer of Act 51 revenue-sharing payments from the Major Streets Fund to the Local Streets Fund as permitted by state law

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. As of June 30, 2007, the components of deferred revenue are as follows:

	Unavailable	Unearned
Special assessment receivables	\$ 433,782	\$ -
Delinquent personal property tax receivables	-	78,276
Rehabilitation loan receivables	39,377	-
Total	<u>\$ 473,159</u>	<u>\$ 78,276</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties benefited from the construction. At June 30, 2007, there is \$433,782 of special assessments receivable in the future. In the event that a deficiency exists because unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Delinquent special assessments receivable at June 30, 2007 are not material. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term debt activity for governmental activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Unlimited Tax General Obligation Bonds:							
2004 Refunding Bonds:							
Amount of issue - \$1,490,000	2.00%-	\$40,764-					
Maturing through 2020	3.80%	\$127,915	\$ 1,363,472	\$ -	\$ 57,646	\$ 1,305,826	\$ 59,052
Special Assessment Bonds:							
2002 Kramer Homes Bonds:							
Amount of issue - \$800,000	3.45%-						
Maturing through 2012	4.35%	\$85,000	510,000	-	85,000	425,000	85,000
Installment purchase agreements:							
2005 Street Sweeper:							
Amount of issue - \$113,494							
Maturing through 2009	3.65%	\$22,788	67,919	-	22,788	45,131	22,788
2006 Backhoe and Wheel Loader:							
Amount of issue - \$133,982							
Maturing through 2011	4.50%	\$26,796	133,982	-	26,796	107,186	26,796
2006 Chevrolet C7500 Kodiak Cab:							
Amount of issue - \$126,694							
Maturing through 2012	4.25%	\$25,339		126,694	-	126,694	25,339
Accumulated compensated absences			108,865	-	12,305	96,560	20,000
Total governmental activities			\$ 2,184,238	\$ 126,694	\$ 204,535	\$ 2,106,397	\$ 238,975

Long-term debt activity for business-type activities is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Revenue Bonds:							
1991 Water and Sewer Bonds:							
Amount of issue - \$295,000	7.10%-	\$15,000-					
Maturing through 2011	7.25%	\$25,000	\$ 135,000	\$ -	\$ 20,000	\$ 115,000	\$ 20,000
Unlimited Tax General Obligation Bonds:							
1998B Water and Sewer Bonds:							
Amount of issue - \$3,600,000	3.95%-	\$100,000-					
Maturing through 2019	6.00%	\$375,000	3,150,000	-	100,000	3,050,000	150,000
2000 Water and Sewer Bonds:							
Amount of issue - \$3,000,000	5.20%-	\$75,000-					
Maturing through 2020	6.00%	\$325,000	175,000	-	75,000	100,000	100,000
2002 Water and Sewer Fund Bonds:							
Amount of issue - \$2,405,000	4.50%-	\$55,000-					
Maturing through 2020	6.50%	\$275,000	2,250,000	-	75,000	2,175,000	75,000
2002 Kramer Homes Water and Sewer Bonds:							
Amount of issue - \$800,000	3.45%-	\$75,000-					
Maturing through 2012	4.35%	\$100,000	535,000	-	80,000	455,000	85,000
2004 Refunding Bonds:							
Amount of issue - \$3,810,000	2.00%-	\$104,236-					
Maturing through 2020	3.80%	\$327,085	3,486,528	-	147,354	3,339,174	150,948
Less - Unamortized deferred charges			(390,999)	-	(30,667)	(360,332)	
Installment purchase agreements:							
2005 Sewer Vactor:							
Amount of issue - \$203,000							
Maturing through 2009	3.65%	\$40,511	121,978	-	40,512	81,466	40,510
2006 Bobcat Excavator:							
Amount of issue - \$51,646							
Maturing through 2011	4.25%	\$10,329	-	51,646	-	51,646	10,329
Total business-type activities			\$ 9,462,507	\$ 51,646	\$ 507,199	\$ 9,006,954	\$ 631,787

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 218,975	\$ 67,909	\$ 286,884	\$ 631,787	\$ 358,663	\$ 990,450
2009	246,650	59,652	306,302	604,113	334,612	938,725
2010	225,713	50,646	276,359	576,751	311,824	888,575
2011	228,527	41,875	270,402	663,939	288,034	951,973
2012	201,728	33,475	235,203	668,940	261,611	930,551
2013-2017	596,144	101,870	698,014	3,923,856	898,026	4,821,882
2018-2020	292,100	15,727	307,827	2,297,900	140,326	2,438,226
Total	<u>\$ 2,009,837</u>	<u>\$ 371,154</u>	<u>\$ 2,380,991</u>	<u>\$ 9,367,286</u>	<u>\$ 2,593,096</u>	<u>\$ 11,960,382</u>

Defeased Debt

In a prior year, the City defeased an Unlimited Tax General Obligation Bond reported in the governmental and business-type activities by placing surplus cash in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bond are not included in the governmental and business-type activities statement of net assets. At June 30, 2007, \$2,450,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

In accordance with revenue bond provisions, cash and investments of the Water and Sewer Fund have been restricted for the funding of required reserves. The following is a summary of restricted assets at June 30, 2007:

Revenue bond requirements:

Operation and maintenance	\$ 236,046
Bond reserve	29,500
Debt service:	
Principal	8,333
Interest	<u>3,457</u>
Total requirements	<u>\$ 277,336</u>

Net assets at June 30, 2007 have been restricted for the amount of the required reserves.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Risk Pool for claims relating to property loss, torts, errors and omissions, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plans

City of Center Line Police and Fire Retirement System

Plan Description

The City of Center Line Police and Fire Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan that covers public safety employees of the City. The System provides retirement, death, disability, and health benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 38 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 25 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System was established by City ordinances and state statute (P.A. 345) and requires a contribution of 9.25 percent of compensation from employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost was \$351,503, which was equal to the actual and required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005 using the entry age actuarial funding method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent to 7.5 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is 15 years.

Reserves

At June 30, 2007, the plan's legally required reserves consist of the following:

Reserve for employees' contributions	\$ 1,630,229
Reserve for retiree benefit payments	5,845,644

Three-year Trend Information

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 351,503	\$ 329,399	\$ 153,524
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Municipal Employees' Retirement System of Michigan

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for municipalities throughout the state of Michigan. The system covers substantially all City employees except for those in the public safety department. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries.

Note 10 - Defined Benefit Pension Plans (Continued)

The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's contractual bargaining units and requires a contribution from covered employees ranging from 3 percent to 5 percent of gross wages.

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$124,783 was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.4 percent per year, and (c) no cost-of-living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 23 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension cost (APC)	\$ 124,783	\$ 149,688	\$ 155,724
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plans (Continued)

Schedule of Funding Progress

	Actuarial Valuation as of December 31		
	2006	2005	2004
Actuarial value of assets	\$ 6,133,781	\$ 6,116,400	\$ 6,199,444
Actuarial accrued liability (AAL)			
(entry age)	\$ 7,769,079	\$ 7,857,552	\$ 7,606,829
Unfunded AAL (UAAL)	\$ 1,635,298	\$ 1,741,152	\$ 1,407,385
Funded ratio	79.0%	77.8%	81.5%
Covered payroll	\$ 1,108,723	\$ 1,116,000	\$ 1,211,000
UAAL as a percentage of covered payroll	147.5%	156.0%	116.2%

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 71 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment healthcare benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,006,000.

The Governmental Accounting Standards Board has recently issued Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new standard will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Joint Ventures

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Eastpointe, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The City's equity interest in the Authority's operating reserve totaling \$65,233 is recorded within the governmental activities column of the statement of net assets. As of the date of this report, the Authority has reserves totaling approximately \$4,500,000 that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserve is not determinable. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, St. Clair Shores, Michigan.

The City is also a member of the 37th District Court, State of Michigan, which provides services to the residents of the cities of Center Line and Warren. As of the most recent financial statements available, the District Court has no equity. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Complete financial statements for the 37th District Court, State of Michigan can be obtained from the administrative offices at 8300 Common Road, Warren, Michigan.

Note 13 - Reserved and Designated Fund Balance

Fund balance in the General Fund has been designated for the following purposes:

Subsequent year's budget	\$ 591,000
Accumulated compensated absences	96,560
Capital expenditures	<u>15,024</u>
Total	<u>\$ 702,584</u>

City of Center Line, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Reserved and Designated Fund Balance (Continued)

The following is a reconciliation of the fund balance reserved for general obligation bond debt service:

Reserved fund balance - July 1, 2006	\$ 236,380
Special tax levy	1,298,813
Debt service payments (including transfers)	<u>(948,673)</u>
Reserved fund balance - June 30, 2007	<u>\$ 586,520</u>

Note 14 - Contingency

The City has entered into an administrative consent order with the Michigan Department of Environmental Quality regarding sanitary sewer overflows that have occurred within the City. According to the provisions of the order, the City is required to continue a corrective action plan, including the rehabilitation of the sanitary sewer system to reduce inflow and infiltration, completion of the sanitary lift station, and outfall sewer improvements to better utilize and take advantage of the increased capacity from the City of Detroit.

The City has complied with all requirements and deadlines to date as set forth in the administrative consent order. The City estimates the total cost for the required improvements over the next five years to be approximately \$9,000,000. The City anticipates applying for low-interest funding through the State of Michigan's State Revolving Fund (SRF) in 2008 to fund the cost of the required improvements. Should the City not qualify for the SRF funding, the improvement plan identified above would likely require modification.

Required Supplemental Information

City of Center Line, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,043,990	\$ 6,063,000	\$ 6,254,261	\$ 191,261
Intergovernmental revenue:				
Federal sources	117,000	144,400	141,396	(3,004)
State sources	1,109,000	1,024,000	997,214	(26,786)
Special assessments	86,760	86,760	88,513	1,753
Fees and charges	574,000	596,000	591,050	(4,950)
Licenses and permits	214,000	216,800	229,564	12,764
Interest income	79,500	101,500	117,012	15,512
Other	350,771	309,771	419,240	109,469
Total revenue	8,575,021	8,542,231	8,838,250	296,019
Expenditures				
General government:				
Legislative	12,670	17,701	18,113	(412)
District Court	411,230	432,730	446,604	(13,874)
City assessor	85,750	269,160	268,229	931
City manager - Clerk	604,489	545,906	552,321	(6,415)
City treasurer	237,871	267,431	263,578	3,853
Other general government	447,280	453,780	438,324	15,456
Public safety:				
Public safety department	3,632,720	3,548,954	3,573,918	(24,964)
Protective inspection	125,580	141,440	137,261	4,179
Public works - DPW and street maintenance	1,063,401	1,031,101	1,054,002	(22,901)
Recreation and culture:				
Recreation	341,758	368,641	378,581	(9,940)
Library	312,645	310,150	269,481	40,669
Debt service	1,299,663	1,053,243	261,974	791,269
Total expenditures	8,575,057	8,440,237	7,662,386	777,851
Excess of Revenue Over (Under) Expenditures	(36)	101,994	1,175,864	1,073,870
Other Financing Sources (Uses)				
Proceeds from installment note	-	-	126,694	126,694
Transfers out	-	-	(849,065)	(849,065)
Total other financing uses	-	-	(722,371)	(722,371)
Net Change in Fund Balances	(36)	101,994	453,493	351,499
Fund Balances - Beginning of year	1,112,686	1,112,686	1,112,686	-
Fund Balances - End of year	<u>\$ 1,112,650</u>	<u>\$ 1,214,680</u>	<u>\$ 1,566,179</u>	<u>\$ 351,499</u>

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Funding Progress June 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
6/30/01	\$ 13,953,545	\$ 10,461,274	\$ (3,492,271)	133.4	\$ 1,503,401	-
6/30/02	13,374,923	10,602,669	(2,772,254)	126.1	1,501,053	-
6/30/03	12,579,542	11,465,738	(1,113,804)	109.7	1,543,963	-
6/30/04	11,856,552	12,696,037	839,485	93.4	1,736,562	48.3
6/30/05	11,520,655	12,567,668	1,047,013	91.7	1,747,459	59.9
6/30/06	11,840,497	13,055,741	1,215,244	90.7	1,713,914	70.9

City of Center Line, Michigan

Retirement System Required Supplemental Information Police and Fire Retirement System Schedule of Employer Contributions June 30, 2007

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2002	\$ -	-
2003	-	-
2004	5,516	100.0
2005	153,524	100.0
2006	329,399	100.0
2007	351,503	100.0

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2006, the date of the latest actuarial valuation, follows:

Actuarial cost method	- Entry age
Amortization method	- Level percent, closed
Remaining amortization period	- 15 years
Asset valuation method	- 4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	- 7.50 percent
Projected salary increases*	- 4.50 percent to 7.50 percent
Cost of living adjustments	- None

Other Supplemental Information

City of Center Line, Michigan

		Special Revenue Funds			
		Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
Assets					
Cash and investments	\$	138,267	\$ 103,657	\$ 193,082	\$ 435,006
Receivables - Net:					
Rehabilitation loans		-	-	39,378	39,378
State of Michigan		25,646	10,285	-	35,931
Total assets	\$	163,913	\$ 113,942	\$ 232,460	\$ 510,315
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$	37,714	\$ 18,433	\$ 8,122	\$ 64,269
Deferred revenue		-	-	39,377	39,377
Total liabilities		37,714	18,433	47,499	103,646
Fund Balances - Unreserved - Designated for streets and capital projects		126,199	95,509	184,961	406,669
Total liabilities and fund balances	\$	163,913	\$ 113,942	\$ 232,460	\$ 510,315

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ 667	\$ 3,596	\$ 40,650	\$ 44,913	\$ 479,919
-	-	-	-	39,378
-	-	-	-	35,931
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 40,650</u>	<u>\$ 44,913</u>	<u>\$ 555,228</u>
\$ -	\$ -	\$ -	\$ -	\$ 64,269
-	-	-	-	39,377
-	-	-	-	103,646
<u>667</u>	<u>3,596</u>	<u>40,650</u>	<u>44,913</u>	<u>451,582</u>
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 40,650</u>	<u>\$ 44,913</u>	<u>\$ 555,228</u>

City of Center Line, Michigan

	Special Revenue Funds			
	Major Streets	Local Streets	Rehabilitation	Total Special Revenue Funds
Revenue				
State sources	\$ 317,254	\$ 127,233	\$ -	\$ 444,487
Interest income	2,091	219	9,570	11,880
Other income	5,154	-	-	5,154
Total revenue	324,499	127,452	9,570	461,521
Expenditures				
General government - Administration	31,725	12,723	-	44,448
Public works - Street maintenance	195,249	271,285	-	466,534
Capital outlay	-	-	-	-
Total expenditures	226,974	284,008	-	510,982
Excess of Revenue Over (Under) Expenditures	97,525	(156,556)	9,570	(49,461)
Other Financing Sources (Uses)				
Transfers in	-	82,000	-	82,000
Transfers out	(82,000)	-	-	(82,000)
Total other financing sources (uses)	(82,000)	82,000	-	-
Net Change in Fund Balances	15,525	(74,556)	9,570	(49,461)
Fund Balances - Beginning of year	110,674	170,065	175,391	456,130
Fund Balances - End of year	<u>\$ 126,199</u>	<u>\$ 95,509</u>	<u>\$ 184,961</u>	<u>\$ 406,669</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Capital Projects Funds				Total
Capital Equipment	Construction	Kramer Homes Bond Construction	Total Capital Projects Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 444,487
-	-	-	-	11,880
-	-	-	-	5,154
-	-	-	-	461,521
-	-	-	-	44,448
-	-	-	-	466,534
295	-	-	295	295
295	-	-	295	511,277
(295)	-	-	(295)	(49,756)
-	-	-	-	82,000
-	-	-	-	(82,000)
-	-	-	-	-
(295)	-	-	(295)	(49,756)
962	3,596	40,650	45,208	501,338
<u>\$ 667</u>	<u>\$ 3,596</u>	<u>\$ 40,650</u>	<u>\$ 44,913</u>	<u>\$ 451,582</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds June 30, 2007

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Assets				
Cash	\$ 529,530	\$ -	\$ -	\$ 529,530
Investments:				
Common and preferred stocks	9,528,677	-	-	9,528,677
Corporate bonds and notes	682,255	-	-	682,255
U.S. Treasury securities	561,917	-	-	561,917
Federal agency securities	1,919,749	-	-	1,919,749
Interlocal agreement investment pools	-	33,767	16,845	50,612
Accrued interest receivable	26,482	-	-	26,482
 Total assets	 13,248,610	 33,767	 16,845	 13,299,222
Net Assets				
Held in trust for pension benefits	13,248,610	-	-	13,248,610
Held in trust for retiree health care benefits	-	33,767	16,845	50,612
 Total net assets	 <u>\$ 13,248,610</u>	 <u>\$ 33,767</u>	 <u>\$ 16,845</u>	 <u>\$ 13,299,222</u>

City of Center Line, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2007

	Police and Fire Retirement System	Police and Fire Retiree Health Care	General Retiree Health Care	Total
Additions				
Investment income:				
Interest and dividends	\$ 292,841	\$ 1,690	\$ 832	\$ 295,363
Net realized and unrealized gain on investments	1,652,596	-	-	1,652,596
Less investment expenses	(117,513)	-	-	(117,513)
Net investment income	1,827,924	1,690	832	1,830,446
Contributions:				
Employer	351,503	-	-	351,503
Employees	131,619	-	-	131,619
Total contributions	483,122	-	-	483,122
Total additions	2,311,046	1,690	832	2,313,568
Deductions				
Benefit payments	974,702	-	-	974,702
Administrative expenses	1,896	-	-	1,896
Total deductions	976,598	-	-	976,598
Net Increase	1,334,448	1,690	832	1,336,970
Net Assets Held in Trust for Pension and Other Employee Benefits				
Beginning of year	11,914,162	32,077	16,013	11,962,252
End of year	<u>\$ 13,248,610</u>	<u>\$ 33,767</u>	<u>\$ 16,845</u>	<u>\$ 13,299,222</u>



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January 16, 2008

To the Honorable Mayor and
Members of the City Council
City of Center Line
7070 Ten Mile Road
Center Line, MI 48015

Dear Mayor and Members
of the City Council:

We have recently completed our audit of the financial statements of the City of Center Line for the year ended June 30, 2007. In addition to the comments and recommendations in this letter, our observations and comments regarding the City of Center Line's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying report on internal control over financial reporting. We recommend that the matters we have noted there receive your careful consideration.

Overview of the City's Financial Condition

During the year ended June 30, 2007, General Fund revenues exceeded expenditures by approximately \$453,000, taking into account transfers to other funds. However, of this amount, \$350,000 is the result of tax levies for future debt service requirements and is not available to fund City operations. As such, the net increase in fund balance was approximately \$75,000. Fund balance at June 30, 2007 amounted to approximately \$1,566,000. Of this amount, \$277,000 is reserved for prepaid expenses, \$586,000 is reserved for general obligation debt service, and \$703,000 is designated for the 2007-2008 budget, capital expenditures, and other purposes.

During the 2006-2007 fiscal year, the City experienced another reduction in state revenue-sharing sources (as discussed below). The City continues to be faced with many budgetary challenges, including continued reductions in state revenue sharing, currently unfunded postemployment benefit obligations, limitations on personal property tax collections, future infrastructure improvements, and necessary improvements to and replacement of facilities and capital equipment.

Certain of these challenges are a direct result of the difficult economic period that has been experienced in the state of Michigan while others are characteristics of the City and its physical framework. It is important that the City maintain an adequate level of working capital and fund balance reserves to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

Water and Sewer Fund

The Water and Sewer Fund experienced a decrease in net assets of approximately \$598,000 during the 2006-2007 fiscal year, and as of June 30, 2007, the Water and Sewer Fund had unrestricted net assets totaling approximately (\$18,000). Under state law, a deficit in the unrestricted net assets of an enterprise fund such as the Water and Sewer Fund constitutes a fund deficit. Accordingly, the City will be required to develop a plan to eliminate the fund deficit and to ensure there will be sufficient equity to fund operations in the future.

Debt Retirement Funds

The State's Municipal Finance Act includes provisions that prohibit the commingling of funds that have been collected to retire general obligation debt with other City funds. During our audit, we noted that the City has collected excess debt levy funds that have not been segregated in a separate bank or investment account. In order to comply with state law, we recommend that the City segregate all excess debt levy funds in a separate checking or investment account until fully expended.

Distribution of Tax Collections to Other Taxing Authorities

State law requires that the City distribute taxes collected on behalf of other taxing authorities within 10 days of the 1st and 15th of each month. During the audit, it was brought to our attention that the City was delinquent in distributing property taxes to the other taxing authorities during the year. We recommend that the City implement processes to ensure that payments are made in a timely manner in compliance with state law.

State-shared Revenue

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. While the majority of the State's budget shortfall in the current year has been eliminated through increases in income tax rates and a surcharge on the new Michigan business tax, it is not completely clear whether the recently passed tax increases have eliminated the structural deficit within the State's General Fund. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (totaling approximately \$182 million), but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent?

- Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expired in 2007** - The revenue-sharing formula has been extended for one year until September 30, 2008 by the legislature. Further legislative action will be required to extend the law beyond 2008.
- **Changes to Michigan's Business Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law have been passed and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict.

State-shared revenue accounts for approximately 12 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state-shared revenue for the City over the past eight years and projected funding levels for 2008. The final column presents the total decrease in state-shared revenue experienced by the City since the 1999-2000 fiscal year:

Fiscal Year	Statutory	Constitutional	Total	Decrease from 2000
2000	\$891,033	\$611,847	\$1,502,880	\$ -
2001	911,214	553,595	1,464,809	38,071
2002	710,420	559,233	1,269,653	233,227
2003	602,176	568,702	1,170,878	332,002
2004	489,806	562,524	1,052,330	450,550
2005	464,911	575,949	1,040,860	462,020
2006	443,524	585,755	1,029,279	473,601
2007	425,043	573,584	998,627	504,253
2008 (est.)	418,175	580,452	998,627	504,253

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). We will continue to update the City as developments occur with revenue sharing and the State's budget. In addition, updated information can be obtained from the State's website or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

Funding of Postemployment Benefits

As you are aware, the City provides postemployment benefits to retirees that are funded currently from the General Fund and the Police and Fire Retirement System. For the year ended June 30, 2007, the cost of these benefits amounted to approximately \$1,006,000, representing an increase of approximately 11.8 percent over the 2006 amount. The City has experienced postemployment healthcare cost increases of 10 percent to 20 percent over the past several years and this annual cost is expected to grow as the average age of the City's workforce and the number of former employees eligible for postemployment benefits increases.

The City has established the Police and Fire Retiree Health Care Fund and the General Retiree Health Care Fund to begin to set aside resources to fund these obligations. These funds were established in accordance with the Public Employee Health Act of 1999 (P.A. 149 of 1999), which allows communities to invest assets set aside for postemployment benefit obligations in the same investment vehicles as pension funds (e.g., stocks, bonds, etc.). These investments provide a better means of achieving rates of return necessary to fund these long-term liabilities. As a reminder, for funds established in accordance with P.A. 149 of 1999, withdrawals from the fund are restricted solely for the payment of healthcare benefits and administrative expenses and an actuarial study is required every five years if the fund is not established on an actuarial basis.

Current accounting pronouncements do not require the accounting for postemployment benefit obligations on an actuarial basis. Recent accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), however, will change the accounting for postemployment benefit obligations to a methodology similar to that used for pension benefits. GASB Statements No. 43 and 45 will require that postemployment benefit liabilities and expenses be measured on an actuarial basis. The new accounting standards will require disclosure of liabilities on an actuarial basis in the City's June 30, 2009 financial report and the measurement of liabilities and expenses on an actuarial basis with the fiscal year beginning July 1, 2009. It is important to remember that it may take upwards of three to six months for an actuarial valuation to be performed and additional lead time will be needed to include the expected contributions in the budget. Therefore, we recommend that you begin the actuarial valuation process at least two years prior to the above date.

New Auditing Standards

Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning with the year ending June 30, 2008. Eight new auditing standards have been issued (Statements on Auditing Standards No. 104 through 111) that require significant changes in how audits are done and how the results of the auditor's work are communicated to clients.

These new rules, which are known collectively as the "Risk Assessment Standards," require auditors to:

- More thoroughly examine and evaluate accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in systems and processes that create risks of material misstatement in the financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically to management and the City Council about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's finance department during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards

To the Honorable Mayor and
Members of the City Council
City of Center Line

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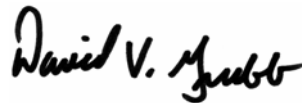
January 16, 2008

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the City Council will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

We would like to thank the mayor and the council for the opportunity to serve as auditors. We would also like to thank Nancy Bourgeois, Bill Barnett, and all of the City of Center Line staff for their assistance during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "David V. Grubb". The signature is written in a cursive, flowing style.

David V. Grubb



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January 16, 2008

To the Honorable Mayor and
Members of the City Council
City of Center Line
7070 Ten Mile Road
Center Line, MI 48015

Dear Mayor and Members
of the City Council:

In planning and performing our audit of the financial statements of the City of Center Line (the "City") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

Reconciliation of Bank Accounts

Sound internal controls dictate that bank account reconciliations be prepared on a timely basis for all cash accounts. Bank account reconciliations are one of the most important aspects of the internal control environment for the safeguarding of assets and timely identification and correction of errors in the financial records. The availability of accurate financial information for managing the operations of the City is also dependent on the timely preparation of bank reconciliations. During our audit, we identified that bank account reconciliations were not prepared and reviewed on a timely basis with the reconciliation of the primary checking account not completed until November 2007.

To the Honorable Mayor and
Members of the City Council
City of Center Line

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January 16, 2008

We recommend that the City implement procedures to ensure that bank accounts are reconciled to the general ledger on a monthly basis, including resolution of discrepancies identified during the process, and that the reconciliations are reviewed and approved by someone other than the preparer.

Segregation of Duties

The segregation of key responsibilities in the accounting and finance function is an important element of internal control as it provides the “checks and balances” of independent review that are critical to successful internal control structures. During our audit, we noted that there is a lack of segregation of duties in the treasurer’s department. For example, the treasurer posts journal entries, prepares bank reconciliations, and has the ability to collect and disburse cash. There are similar incompatible duties related to the cash disbursement and payroll functions.

While many of these issues are a direct result of the vacancy in the deputy treasurer position, we recommend that the City review the division of responsibilities in the accounting and finance functions to make changes, where appropriate, to improve internal controls. This process will be necessarily limited by the size of the City’s accounting and finance staff; however, there may still be opportunities for improvements.

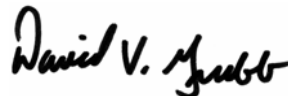
Accrual Adjustments and Reconciliation of Accounts

During the course of our audit, we identified several accounts that were not reconciled during the year or at year end and required adjusting journal entries to correct. The majority of these adjustments were to record balances on the accrual basis of accounting, as required by generally accepted accounting principles. These adjustments include corrections to unbilled accounts receivable, proceeds from installment notes payable, capital outlay, restricted assets, accounts and retainages payable, allowance for uncollectible receivables, deferred revenue, and other adjustments. We recommend that the City evaluate the monthly and annual accounting adjustments that are required to comply with generally accepted accounting principles and develop processes to ensure the adjustments are made on a timely basis.

This communication is intended solely for the information and use of the City Council, management, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "David V. Grubb", written in a cursive style.

David V. Grubb

cc: Ms. Nancy Bourgeois
Mr. Bill Barnett